Economic Policy Uncertainty and Momentum

Yangru Wu from Rutgers University
Date/Time: 10/10/2018 at 1:00
Location: Leir Conference Room, CAB 3052

**Abstract:** We show that a news-based measure of economic policy uncertainty (EPU) forecasts momentum. Momentum is significant following the low EPU periods, but is nonexistent otherwise. A one-standard-deviation increase in EPU is associated with a 1.11% decrease in risk-adjusted momentum returns. The predictive power of EPU is robust after controlling for previously documented economic state variables, macroeconomic uncertainty, and time-varying risk factors. Furthermore, a global EPU index forecasts momentum in international equity markets and other asset classes. We provide an explanation for these results from the perspective of a fund-flow-induced trading mechanism and offer direct empirical support.

**Speaker Bio:** Dr. Wu is a Professor of Finance and Director of the Master of Quantitative Finance Program at the Rutgers Business School-Newark & New Brunswick. He holds the Deans Research Professorship at the Rutgers Business School and received his Ph.D. from the Ohio State University in 1993. He has worked as an assistant professor at the Chinese University of Hong Kong and West Virginia University prior to joining the Rutgers faculty in 1997. He teaches Financial Modeling, Investments, International Finance, and Corporate Finance at various levels. His current research interest areas are international finance and empirical asset pricing. He has published articles in numerous scholastic journals, including Journal of Finance, International Economics Review, Journal of Monetary Economics, Journal of Money Credit & Banking, and Biometrika. He also serves as a referee for many leading journals in finance, economics and statistics.

This talk is part of the MTSM Business Data Science PhD Program Seminar Series